

2021

Nonprofit Crowdfunding Best Practices

Shelly Smith
University of Northern Iowa

Let us know how access to this document benefits you

Copyright

Follow this and additional works at: <https://scholarworks.uni.edu/grp>

Recommended Citation

Smith, Shelly, "Nonprofit Crowdfunding Best Practices" (2021). *Graduate Research Papers*. 2102.
<https://scholarworks.uni.edu/grp/2102>

This Open Access Graduate Research Paper is brought to you for free and open access by the Student Work at UNI ScholarWorks. It has been accepted for inclusion in Graduate Research Papers by an authorized administrator of UNI ScholarWorks. For more information, please contact scholarworks@uni.edu.

Nonprofit Crowdfunding Best Practices

Abstract

Crowdfunding has grown in popularity amongst the general public. This paper is a literature review that examines the opportunities and challenges for nonprofit organizations to use crowdfunding to supplement traditional fundraising efforts. Literature sources were used to identify what crowdfunding is and where it came from, crowdfunding platforms, crowdfunding campaign benefits and limitations, organizational costs for nonprofit crowdfunding, and crowdfunding regulation and oversight. Sources for the literature review include study areas of crowdfunding definitions and history, crowdfunding platform examination, crowdfunding benefits and limitations, costs for nonprofit crowdfunding, and crowdfunding regulation and oversight. Authors share insight into the risks, benefits, and best practices for nonprofit organizations to consider when designing a crowdfunding campaign.

NONPROFIT CROWDFUNDING BEST PRACTICES

A Research Paper

Submitted

in Partial Fulfillment

of the Requirements for the Degree

Master of Arts

Shelly Smith

University of Northern Iowa

July 2021

ABSTRACT

Crowdfunding has grown in popularity amongst the general public. This paper is a literature review that examines the opportunities and challenges for nonprofit organizations to use crowdfunding to supplement traditional fundraising efforts. Literature sources were used to identify what crowdfunding is and where it came from, crowdfunding platforms, crowdfunding campaign benefits and limitations, organizational costs for nonprofit crowdfunding, and crowdfunding regulation and oversight. Sources for the literature review include study areas of crowdfunding definitions and history, crowdfunding platform examination, crowdfunding benefits and limitations, costs for nonprofit crowdfunding, and crowdfunding regulation and oversight. Authors share insight into the risks, benefits, and best practices for nonprofit organizations to consider when designing a crowdfunding campaign.

TABLE OF CONTENTS

ABSTRACT	1
TABLE OF CONTENTS	2
LIST OF TABLES	3
CHAPTER I INTRODUCTION	4
Introduction	4
Statement of the Problem	5
Purpose of the Study	5
Research Questions	6
Significance of the Study	6
Definition of Terms	7
CHAPTER II INTRODUCTION TO LITERATURE REVIEW	9
Introduction to Literature Review	9
Crowdfunding Definition, History, and Platforms	10
Sources (Freedman & Nutting, 2015; Gredda et al., 2016; Majaski, 2019)	14
Crowdfunding Benefits and Limitations	14
Organizational Costs for Nonprofit Crowdfunding	16
Crowdfunding Regulations and Oversight	17
Summary	19
CHAPTER III SYNTHESIS AND KEY FINDINGS	20
Synthesis and Key Findings	20
Implications for Practice	23
Suggestions for Future Research	26
Concluding Comments	27
REFERENCES	28

LIST OF TABLES

TABLE

Table 1.1 Table of Definitions

Table 2.1 Literature Review Sources

Table 2.2 Online crowdfunding platform model and fees

CHAPTER I INTRODUCTION

Introduction

Crowdfunding has gained popularity with the Iowa State University fan, Carson King, who received airtime for his poster during the University of Iowa vs. Iowa State University football game in September of 2019. According to Calvin (2019), King used a black marker to post “Busch Light Supply needs Replenished ~Venmo~ Carson King-25” (p.1) on a white poster board and held it up in a crowd of fans for the cameras to focus on ESPN’s ‘Gameday’. This was broadcasted in a group shot image before the football game. By the end of the day, six hundred dollars had been sent to King’s Venmo account, and it continued to grow to over three million dollars within weeks.

“Crowdfunding is a method of collecting many small contributions, by means of an online funding platform, to finance or capitalize a popular enterprise” (Freedman & Nutting, 2015, p.1). Any effort to raise financial capital or awareness towards a specific purpose can be put into a crowdfunding campaign by choosing an online platform. Crowdfunding is defined as “Financing projects or businesses with small contributions from large numbers” (Gedda et al, 2016, p. 31).

King’s sign went viral through social media and news outlets growing in popularity and contributions to his cause. Initially, his purpose was to buy beer but when King’s Venmo account began to grow beyond buying a case or two of beer, he had to find a new purpose. King decided to donate funds raised through this crowdfunding campaign to the University of Iowa Stead Family Children’s Hospital. This change may have added fuel to the crowdfunding campaign as corporations pledged matching dollars directly to the University of Iowa Stead Family Children’s

Hospital. Still, nearly a million dollars have been deposited into King's Venmo account. This is an example of crowdfunding, unexpectedly raising awareness and donations for a nonprofit benefiting the healthcare of children (Calvin, 2019). Crowdfunding has gained popularity with the millennial generation, and a variety of internet-based platforms have developed the means to collect and transfer money electronically for varied reasons. Kickstarter, Venmo, PayPal, and GoFundMe are four of the most popular known platforms that all make money by adding a fee to the amount funded (Gedda et al., 2016).

Statement of the Problem

Nonprofit organizations constantly seek ways to raise money to fund their operations and programs they offer through grants, presentations, fundraising events, or online platforms. While it appears crowdfunding campaigns are a new easy way to sit back and let the donations pile up without much effort, there is some history and risk nonprofits should be made aware of. Since the Coronavirus Pandemic of 2020-present, nonprofit organizations have replaced their in-person fundraising events with crowdfunding campaigns (Loucanova & Olsiakova, 2021).

Accountability of the crowdfunding platform is a concern for assuring compliance with giving the nonprofit organization the proper amount of funds raised, any regulation oversight, and the reconciliation of how funds are spent (Zhao et al., 2019). The problem this paper will address is how crowdfunding can be used, examine best practices of crowdfunding campaigns, and identify accountability of crowdfunding platforms for funds being raised by nonprofit organizations.

Purpose of the Study

The purpose of the study is to examine what crowdfunding is and where it came from, crowdfunding platforms, crowdfunding campaign benefits and limitations, organizational costs

for nonprofit crowdfunding, and crowdfunding regulation and oversight. This study will examine what crowdfunding is and where it came from, crowdfunding platforms, crowdfunding campaign benefits and limitations, organizational costs for nonprofit crowdfunding, and crowdfunding regulation and oversight.

While crowdfunding had surprisingly taken Carson King's request viral and lucrative in donations, it was also his messaging and the spontaneity of the public that contributed to its success (Calvin, 2019). Nonprofits need to be aware of what crowdfunding is and how to use a crowdfunding campaign to strengthen their fundraising efforts. By knowing some of the benefits and limitations associated with crowdfunding campaigns and platforms, nonprofit organizations are better positioned for a successful experience. Organizational costs associated with successful crowdfunding efforts need to be identified and budgeted for by nonprofit organizations. Knowing how crowdfunding platforms are regulated or monitored may meet ethical standards and accountability to the donor and nonprofit organization.

Research Questions

There are many questions to consider when planning to raise funds for a nonprofit organization through crowdfunding. Research questions in consideration guiding this literature review include:

1. What is crowdfunding and how is it used to raise funds for nonprofit organizations?
2. What benefits and limitations should a nonprofit organization be aware of when using crowdfunding to raise funds?

3. What are the costs associated with crowdfunding campaigns for nonprofit organizations to consider?
4. How are crowdfunding campaigns monitored and held accountable, including any regulations and oversight?

Significance of the Study

Becoming aware of the Carson King fundraising success using a cardboard sign, national television and Venmo spurred the research into who holds King and Venmo accountable and what implications there are for the University of Iowa Stead Family Children's Hospital. This research paper will examine answers to those questions resulting in the identification of best practices for nonprofit organizations to follow when considering crowdfunding campaigns.

While the University of Iowa Stead Family Children's Hospital is a recipient of King's generosity, they did not seek out his Venmo crowdfunding campaign. They became invested in the effort after King generated more attention and donations than he ever dreamed possible. This creates the question of how nonprofit organizations like the University of Iowa Stead Family Children's Hospital can use crowdfunding platforms in the future and what they should be aware of before planning a crowdfunding campaign. Other questions include who holds the crowdfunding campaign accountable, what makes it successful, and are there any regulations to be aware of? This paper will examine what crowdfunding is and where it came from, crowdfunding platforms, crowdfunding campaign benefits and limitations, organizational costs for nonprofit crowdfunding, and crowdfunding regulation and oversight.

Definition of Terms

Table 1.1 Definitions

Crowdfunding	Crowdfunding is defined as funding projects, ideas, events, or operations with small contributions from a large number of donors through online platforms.
Crowdfunding Campaign	A Crowdfunding Campaign is a digital fundraising campaign designed to secure digital donations through a crowdfunding platform from any person reached electronically.
Crowdfunding Platform	An online platform that is designed to collect digital contributions for a specific organization or purpose.
Crowdsourcing	Crowdsourcing is defined as gathering ideas or information from a large number of sources or people.

Sources (Gredda et al., 2016, Zhao et al., 2019)

CHAPTER II INTRODUCTION TO LITERATURE REVIEW

Introduction to Literature Review

The purpose of the study is to examine what crowdfunding is and where it came from, crowdfunding platforms, crowdfunding campaign benefits and limitations, organizational costs for nonprofit crowdfunding, and crowdfunding regulation and oversight. This study will identify what crowdfunding is and how it can be used to raise funds for nonprofit organizations. Also, the benefits and limitations a nonprofit organization should be aware of will be researched. Furthermore, it will explore how crowdfunding platforms are monitored and held accountable, including best practices for nonprofit crowdfunding campaigns.

Chapter II is divided into four sections. The first section will answer the question of what crowdfunding is, its history, and identify common crowdfunding platforms. The second section will identify the benefits and limitations of fundraising through crowdfunding campaigns. The third section will review the organizational costs associated with crowdfunding campaigns both real and imagined. The last section will explore the regulations and oversight of crowdfunding platforms. Table 2.1 is a graphic representation of the literature review split into four sections.

Table 2.1 *Literature Review Sources*

Study Areas	Sources
Crowdfunding Definition, History, and Platforms	Loucanova, E., & Olsiakova, M. 2021; Majaski, 2019; National Council of Nonprofits, 2019; Trejos, 2017; Zhao et al, 2017; Gedda et al., 2016; Freedman & Nutting, 2015; Gerber et al., 2012; Johnston, 2015;
Crowdfunding Benefits and Limitations	Loucanova, E., & Olsiakova, M. 2021; Petrov, L. F., & Emelyanova, E. S., 2021; National Council of Nonprofits, 2019; Zhao, et al., 2019; Joslyn, 2017; Johnston, 2015
Organizational Costs for Nonprofit Crowdfunding	Cantú Villarreal, M. V., & Vasiljević, A., 2021; Petrov, L. F., & Emelyanova, E. S., 2021; National Council of Nonprofits, 2019; Zhou, H., & Ye, S., 2019; Anglin et al., 2018; Joslyn, H., 2017; Johnston, 2015; Kirby, E., Worner, S., 2014.
Crowdfunding Regulation and Oversight	Fintech, 2021.; Katalina, O., & Saksonova, S., 2021; Takagi, 2019; Zhao et al, 2019; Zhou and Ye, 2019; Weiss, N., 2019; Registration of Funding Portals, 2017; Kirby, E., Worner, S., 2014

Crowdfunding Definition, History, and Platforms

Crowdfunding has a history dating back to at least the 1880s with a variety of documented efforts to ask crowds of people to give to a specific purpose with whatever amount of money the donor chooses. For example, “in 1884, newspaper publisher Joseph Pulitzer used “crowdfunding” to secure the \$100,000 needed to build a pedestal for the Statue of Liberty in New York harbor, from 125,000 people donating \$1.00 or less” (Johnston, 2015, p. 72).

Early in the 19th century, music composers Beethoven and Mozart used a subscription system to finance their work, creating concerts and compositions (Gedda et al., 2016). “Before computer-mediated crowdfunding, creators often engaged in personal crowdfunding initiatives.

For example, musicians would publicly ask their fans to fund a new album or tour.” (Gerber et al., 2012, p.1). Crowdfunding has grown from personal approaches to digital and social media-based initiatives using the internet or mobile devices for accessibility (Gedda et al., 2016).

In 2008, crowdfunding expanded and grew in developed countries (Loucanova & Olsiakova, 2021). The expansion was a result of economic stressors and the popularity of the internet, mobile access, and social media networking (Loucanova & Olsiakova, 2021). During this past year of the Coronavirus Pandemic shutting down face-to-face interactions, we know in-person events and fundraisers decreased donations to nonprofit organizations (Loucanova & Olsiakova, 2021).

Another example of crowdfunding success is The Ice Bucket Challenge. The Ice Bucket Challenge started in 2014 to raise donations for research into amyotrophic lateral sclerosis (ALS) – also known as Lou Gehrig’s disease by challenging others to raise the money and receive a bucket of ice water dumped over their head. This challenge used social media to promote an activity anyone could carry out and then challenged peers to join in with the hope that donations would be sent to ALS. The ALS Association received “over one hundred fifteen million being donated” (Trejos, 2017, p.4). The challenge continues to be promoted through the ALS Association.

Ying Zhao, Phil Harris, and Wing Lam (2019) list different types of crowdfunding used as peer-to-peer lending, equity-based crowdfunding, donation-based, prepayment, or return for a cost-savings reward. The differing types of crowdfunding are important to be aware of in distinguishing their uses and benefits. Crowdfunding has been used to raise funds for private business enterprises, political campaigns, personal needs, community support, and a wide variety

of reasons, this paper will focus on nonprofit organizations using crowdfunding to secure donations (Zhao et al., 2019).

Online platforms that facilitate crowdfunding campaigns vary in the services offered and fees charged. “GoFundMe, launched in 2010, is a pioneer in donation-based crowdfunding.” (Freedman & Nutting, 2015, p. 5). They take five percent of each donation as well as processing fees from the donor (Freedman & Nutting, 2015). Funders and nonprofit organizations should be aware that both parties are charged a fee. Freedman & Nutting (2015) state that “as of October 2015, GoFundMe campaigns had reached the \$1 billion plateau” (p.5) raised in campaigns.

Kickstarter is another well-known crowdfunding platform operating on the internet. They follow the all-or-nothing model in that if the goals and deadlines are not met, the campaign is closed without collecting funds from investors or donors. With Kickstarter, nearly thirty-six percent of campaigns are entirely funded, meaning about sixty-four percent fail to reach their goal in time (Freedman & Nutting, 2015).

Experiment.com is another site that has evolved from older versions and names. This is a new rewards-based crowdfunding online platform for crowdfunding, which rewards funders with insight into the projects (Freedman & Nutting, 2015). This may be a more intimate approach to attracting new donors into the project by rewarding the funder. This action engages the financier with the project and is different from others that are just sending money to the campaign.

PayPal is the first most notable digital way to send and receive funds for the general public to use since 1998. PayPal has grown since then, having been sold and bought, which led to the creation of Venmo (Majaski, 2019). Venmo is different from mobile banking applications and cannot be used to pay your bills or make tax-deductible donations. Instead, Venmo is used

for friends and associates to pay each other without the use of cash or the risk of checks bouncing. The general population can use Venmo to exchange electronic currency at garage sales, to split the cost of a shared meal at a restaurant, gifting, and many other reasons one could imagine. King's poster is a perfect example of how casual and spontaneous this mobile application can be productive.

Of the choices in platforms, there are a variety of payout models, of which the two most popular are the 'all or nothing' or the 'keep it all' styles (Gedda et al., 2016). Keep it all forms, collect all the donations via online banking, credit card, or debit card payments, and send all gifts to the program or service being highlighted (Gedda et al., 2016). GoFundMe is a keep it all based platform that collects donations, keeps a fee, and sends the rest to the nonprofit, according to Freedman and Nutting (2015).

All-or-nothing style payout models are goal-driven, and if the goal is not achieved, then the funds are not withdrawn from the donor's accounts (National Council of Nonprofits, 2019). Along with the all or nothing option is an added feature where the payout model includes buying or ordering the item funding is needed (Gedda et al., 2016). This has worked for teachers who want to order additional inventory through crowdfunding without going through the school district protocols for making purchases. Table 2.2 will highlight different online crowdfunding platforms, their fees charged, and what funding model is offered.

Table 2.2 Online crowdfunding platform model and fees

Online Platforms Examined	Pay Out Model	Fee Charged
Experiment.com	All or nothing	8%

Facebook donations to NPO		no fee
GoFundMe	All or nothing	5% plus \$.30 per donation
Indiegogo	All and more	
Ioby		3% + \$35
Kickstarter	All or nothing	5%
Kiva	A loan with 0% interest	none
PayPal	digital wallet	3% plus \$.30 per donation
Razoo	All and more	3% plus \$.30 per donation
Venmo	digital wallet	3% for credit card

Sources (Freedman & Nutting, 2015; Gredda et al., 2016; Majaski, 2019)

Crowdfunding Benefits and Limitations

Nonprofits have several points to consider before choosing a crowdfunding campaign. Best practices can be refined after considering the benefits and limitations of crowdfunding platforms, campaigns, and plans.

Limitations. Fees charged by the crowdfunding platform range from free to up to five percent of the total funds collected and distributed (National Council of Nonprofits, 2019). These fees are not unlike what most banks and credit card companies charge a business for collecting payments through credit or debit cards. It is suggested that the nonprofit add the fees that would be charged to the goal of the crowdfunding campaign (Johnston, 2015).

Time is a factor that nonprofits must consider before venturing into the planning, design, and managing of a crowdfunding campaign. Joslyn (2017) suggests, “Allocate sufficient staff time...Tap influencers...Line up seed money...Focus on impact...Set realistic goals...plan for success...Make tweaks based on the data...Draw new donors closer...” (p.1-2). This leads to considering how a crowdfunding campaign can coincide with other marketing and traditional interpersonal efforts to solicit donations. With Joslyn’s feedback, nonprofits need to consider the idea that crowdfunding is not an easy or free way to sit back and watch the donations roll in with no effort on their part.

Once the campaign is launched, additional time is needed to boost awareness and participation from new donors. Johnston (2015) suggests planning for eight to ten hours a month for at least three months of staff time to successfully support a crowdfunding internet-based campaign. A cost savings measure would be to recruit volunteers to take on this task.

Crowdfunding platforms may limit what information is available to the nonprofit organization hosting the crowdfunding campaign (Petrov & Emelyanova, 2021). This could make it difficult for the nonprofit organization to account for donations in detail of who donated. Not knowing who made contributions to the campaign will further limit any acknowledgment, recognition, and continued communication with donors.

Benefits. Key factors for crowdfunding success identified by Huiquan Zhou and Shihua Ye (2019) include a demonstration of legitimacy, argument of worthiness, and social network (Zhou & Ye, 2019). Zhou and Ye’s (2019) empirical study examined over a hundred grassroots nonprofit campaigns. It appears that the accountability piece was not a factor in a donor's

determination to give. They explained that in China achieving legal status for an organization is highly regarded and therefore assumed accountable (Zhou & Ye, 2019).

Setting smaller goals for specific projects is more successful than exaggerating goals or looking for that giant pie in the sky (Petrov & Emelyanova, 2021). Nonprofit organizations may have better luck asking for realistic donations to an identified need rather than asking for a general amount towards operational expenses. An example could be setting up a crowdfunding campaign for \$5,000 to go towards car seats and baby safety equipment instead of \$10,000 to go towards the agency's annual campaign.

Know that there is a crowd effect when promoting a crowdfunding campaign (Petrov & Emelyanova, 2021) Petrov and Emelyanova (2021) highlight "As soon as potential sponsors see that the project looks successful, they are much more likely to participate and fund it" (p 4). Funders want to contribute towards successful campaigns. Acknowledging the financial risk, most crowdfunding platforms are free to use and only charge a fee if funds are collected (Loucanova & Olsiakova, 2021). If the crowdfunding campaign is successful, then there will be funds available to cover the costs associated with operating the campaign. If the campaign is not successful and no funds are raised, then there are no direct costs although there may be a loss of human resources or staff time spent on the project (Loucanova & Olsiakova, 2021). Considering this investment of staff time may not be profitable now, the nonprofit organization could still use what was learned for future fundraising efforts.

Organizational Costs for Nonprofit Crowdfunding

Table 2.2 highlights the known costs of using a few of the most common crowdfunding platforms where a percentage of the profit for a fee per transaction is kept by the platform. By

evaluating crowdfunding platforms' fees charged and how funds are collected, the nonprofit organization has a better idea of the cost to budget into the campaign expenses. The fees crowdfunding platforms charge the donor, and the fees they charge the recipient, inform the nonprofit organization will have a beginning basis for budgeting

The human resource expense of staff time spent on crowdfunding campaigns is a cost that nonprofits must consider before venturing into the planning, design, and managing of a crowdfunding campaign (Joslyn, 2017). By being aware of the human resources time needed to plan, coordinate, implement, and stretch an online crowdfunding campaign, the nonprofit will be more aware of the financial cost in wages and salaries as well as the opportunity to consider volunteers facilitating a campaign. Once the campaign is launched, additional time is needed to boost awareness and participation from new donors. Johnston suggests planning for eight to ten hours a month for at least three months of staff time to successfully support a crowdfunding internet-based campaign (Johnston, 2015).

Marketing of the crowdfunding campaign through social media has been identified as an essential element of a campaign's success. Strategies need to be developed to promote a viral spread of awareness to the campaign (Zhou & Ye, 2019). Marketing campaigns can become as affordable or expensive as the budget will allow in promoting a crowdfunding campaign.

So why should a nonprofit take time to consider investing staff time, social media posts, and other efforts to start an online crowdfunding campaign? "Now, crowdfunding is projected to become a \$90-\$96 billion-dollar industry," according to the National Center of Nonprofits (2019, p. 2). Crowdfunding still happens with making a face-to-face request or in a localized effort through public speaking opportunities. Online crowdfunding platforms are a growing industry

with options offered by Kickstarter, Indiegogo, GoFundMe, Razoo, Ioby, Angel, Kiva, and other companies.

Designing the key messaging in a crowdfunding campaign to motivate funders to respond to the ask for donations is an easy low-cost tool (Anglin et al., 2018). Logical or rational language had better success over emotional pleas in crowdfunding campaigns (Cantú Villarreal & Vasiljević, 2021). Nonprofit organizations need to be aware of the language used in creating their crowdfunding campaigns and marketing strategies play a key role in their fundraising success (Cantú Villarreal & Vasiljević, 2021).

Crowdfunding Regulations and Oversight

The Securities and Exchange Commission of the United States has some legal oversight of crowdfunding platforms and organizations that sell securities or investments (Registration of Funding Portals, 2017). The oversight includes regulations that require a permit, disclosures, and limit amounts that can be raised. Noreen Weiss found that donation-based crowdfunding is not regulated like equity-based, return for a reward, or investor crowdfunding is regulated by the US Securities Act (Weiss, 2019). The JOBS Act of 2012 provided legal rules and regulations for equity crowdfunding (Zhao et al., 2019).

Kirby and Worner (2014) identified financial return crowdfunding can vary in regulations and oversight depending on governmental jurisdiction. Current regulatory trends encourage oversight for investor protection in this newer industry of crowdfunding (Kirby & Worner, 2014). The crowdfunding platforms used for investments, equity, or other financial returns are regulated by the Securities and Exchange Commission of the United States (Fintec, 2021). There

is a lack of rules or regulations provided by government oversight agencies in the United States as well as other countries for donation-based fundraising.

Donation-based crowdfunding platforms such as what nonprofits use to fundraise do not appear to be held accountable in the United States yet (Zhou & Ye, 2019). There is no known governmental agency providing oversight or regulation of nonprofit crowdfunding efforts. Zhao, Harris, and Lam (2019) share concerns about the lack of regulation or oversight of donation-based crowdfunding as it poses several risks. Identified potential risks of abandoned projects, informed decisions and project quality could risk malpractice or fraud. (Zhao et al, 2019). This brings awareness to concerns of crowdfunding safety for the donor and recipients.

Reporting requirements and an assessment framework are two areas identified for future research (Zhao et al., 2019). Zhao suggests nonprofit organizations are held accountable by their governance and poses the suggestion that future research on reporting requirements may reach a level of regulation or oversight (Zhao et al, 2019). “There is no legally binding financial obligation incurred by the recipient to the donor, no financial or material returns are expected by the donor” (Zhao et al., 2019, p. 4). Knowing there is no financial obligation between donor and recipient in donor-based crowdfunding limits finding where the accountability lies.

The European Union Parliament has considered but has not taken action on supervised regulation of crowdfunding platforms as of 2020 (Katalkina & Saksonova, 2021). Crowdfunding service providers for businesses are held accountable through other regulations (Katalkina & Saksonova, 2021).

In searching the literature for nonprofit crowdfunding oversight by state governments it was learned of a bill proposed in the State of California in February of 2019. Takagi (2019)

wrote of a bill proposed for new laws governing charitable crowdfunding solicitation. It is explained that the bill required crowdfunding campaigns to secure the consent of the nonprofit organization named as the recipient of the funds before launching a campaign (Takagi, 2019). An example describing this further is that if a school wanted to raise funds for the Girl Scouts of the USA they would need to receive consent from the Girl Scouts of the USA first.

Summary

Chapter II provided a literature review of defining crowdfunding and its history, crowdfunding platforms, crowdfunding campaign benefits and limitations, organizational costs for nonprofit crowdfunding, and crowdfunding regulation and oversight. This literature review identified what crowdfunding is and how it can be used to raise funds for nonprofit organizations. Also, the benefits and limitations a nonprofit organization should be aware of were researched. In addition, the literature review examined the potential organizational costs of crowdfunding campaigns. Furthermore, it explored how crowdfunding platforms are monitored and held accountable.

CHAPTER III SYNTHESIS AND KEY FINDINGS

Synthesis and Key Findings

Just as Carson King discovered during an Iowa State University Football game in 2019, crowdfunding can be surprisingly successful and lead to bigger and better opportunities. Carson used a poster board to garner the attention of his Venmo account on national television to receive cash donations to replenish his beer supply. That campaign grew because of media attention, a direct purpose, and a digital platform giving King immediate donations. This is an example of a successful donation-based crowdfunding campaign. Though King's success seemed surreal, it led to implications for the increased donations after it surpassed his immediate need (Calvin, 2019). It led to King identifying a nonprofit he would give the excess funds to, which then fuelled corporate match donations and more donations to his Venmo account. One of the implications King needed to consider is that the increased contributions to his Venmo account could catch the attention of the Internal Revenue Service as taxable income. Under advisement, King decided to reduce this risk by selecting a worthy nonprofit to receive and report the funds as donations and he then established his own philanthropic nonprofit organization (Calvin, 2019). If King had formed his nonprofit organization before the beginning of this campaign, he would not have the oversight of the Internal Revenue Service to be concerned with taxing the contributions to King's Venmo account as income.

Crowdfunding campaigns can be used by nonprofit organizations to secure donations digitally without much restriction or regulation beyond their own policies and procedures (Kirby & Worner, 2014). Before the Coronavirus Pandemic forced all nonprofit organizations to cancel in-person fundraising events, crowdfunding was used in addition to traditional fundraising

efforts. Since the Coronavirus Pandemic, we can now see how crowdfunding campaigns could retain annual fundraising goals by shifting in-person events to online platforms. Crowdfunding campaigns became a source of revenue in crisis times such as the Coronavirus Pandemic of 2020-present (Loucanova & Olsiakova, 2021). Nonprofit organizations can use crowdfunding campaigns to raise donations while avoiding the potential impact of the Coronavirus Pandemic.

Looking back at the history of crowdfunding in the United States, it might be surprising to consider there is a 140-year history of many people contributing varied amounts to a specific purpose or cause (Johnston, 2015). Taking a look at the history of crowdfunding and the variety of crowdfunding platforms available allows nonprofit organizations to better understand and plan for developing their own crowdfunding campaign.

Crowdfunding campaigns do not require much staffing, allowing the smallest nonprofit organizations to use this method just as easily as the largest nonprofit organizations (National Council of Nonprofits, 2019). Volunteers could set up, monitor, and implement a crowdfunding campaign on behalf of their favorite cause or nonprofit organizations. Consider social media posts where people ask for birthday gifts to be directed to their favorite cause instead of receiving presents.

Nonprofit organizations interested in developing a donation-based crowdfunding campaign need to be aware of the benefits and limitations this style of fundraising poses (Zhao, et al., 2019). Crowdfunding platforms will have fees charged to the funds raised to cover their operations and expenses as well as provide a profit. Through this literature review, there were no known crowdfunding platforms that operated for free or no cost. Much like the expense to hire a

grant writer or fundraiser; the expense of the crowdfunding platform needs to be written into the fundraising budget (National Council of Nonprofits, 2019).

There are over a dozen different crowdfunding platforms with varying features and costs for nonprofit organizations to choose from (Majaski, 2019; Geddat et al., 2016; & Feedman & Nutting, 2015). With fees of 3% of the proceeds being retained by the crowdfunding platform being the most common amount charged, see Table 2.2. Knowing this amount and comparing it to that a nonprofit organization may pay for professional fundraisers, grant writers or even the use of credit card processing systems makes it a good choice. Depending on the marketing and human resource costs invested in a crowdfunding campaign, the addition of 3% of funds raised as a known expense could make the crowdfunding campaign a better revenue source than an expensive event or gala.

Best practices can be learned from reading through the literature review, articles in print, and successes of other crowdfunding campaigns. Suggestions from the literature include planning by developing a strong message, a worthy reason to give, and a marketing plan including social media-based marketing efforts (Anglin et al., 2018). The idea of social media contributing to the success of a crowdfunding campaign makes sense as the teens through the fifty-year-old population are frequently on social media platforms throughout the day. Social media is a way to extend the reach of the crowdfunding campaign through sharing the opportunity with minimum barriers (Cantú Villarreal & Vasiljević, 2021). A social media post can be liked, shared, and engaging through the digital efforts of friends and supporters any time of day and anywhere in the world. Compare this to a letter campaign that takes crafting of a letter, printing, folding, stuffing into an envelope, refining an address list, finding addresses,

addressed, stamped, and mailed. The letter campaign is limited to a designated mailing list of known addresses whereas a crowdfunding campaign can be extended and shared digitally without such restrictions.

The question remains of who holds crowdfunding campaigns accountable in that the funds raised and distributed are done so ethically and with oversight to assure the nonprofit, donor, and recipients are not taken advantage of (Weiss, 2019). Knowing how successful Carson King was in receiving donations to his Venmo reaching over a million dollars makes you wonder many questions. What if he lied about donating the profits to the University of Iowa Stead Family Children's Hospital? What if he sat on the donations earning interest and profited from this campaign?

The literature review identified crowdfunding platforms and crowdfunding campaigns as being regulated by laws and regulations differently as determined by the country and purpose of the campaigns (Registration of Funding Portals, 2017). In China, the perception is that oversight is not needed as the difficulty of nonprofits receiving their status is the most difficult. In the United States, crowdfunding campaigns used to generate a profit, return on investment, or some other kickback to the user receive oversight by the Securities Exchange Commission as a result of two different Acts of Congress (Weiss, 2019). There is little oversight of crowdfunding campaigns that nonprofit organizations use. There are no identified restrictions on them other than what is established by the platform.

Implications for Practice

Nonprofit Organizations can benefit from crowdfunding campaigns organized and initiated using a crowdfunding platform. Crowdfunding campaigns can be designed to meet the

fundraising needs of programs and services offered by nonprofit organizations with minimal expense and profitable results (Joslyn, 2017).

Initially, a nonprofit organization needs to review its fundraising needs and identify a plan to raise those funds. The plan could include traditional fundraising efforts and consideration of adding a crowdfunding campaign. During the Coronavirus Pandemic, nonprofit organizations canceled traditional fundraisers and moved them to online events using crowdfunding platforms. The crowdfunding campaign needs the planning of staff and volunteers responsible for raising funds (Joslyn, 2017). This team of planners will need to identify a worthy and compelling purpose, coordinate dates for the campaign, research crowdfunding platforms for best match, establish a marketing plan involving social media, set goals and a timeline for implementation, and communicate this plan with those that will be involved to support the campaign (Johnston, 2015). The idea of using social media as a major part of the marketing strategy to promote a crowdfunding campaign can be intimidating for those challenged with the use of technology. It would be wise to recruit a volunteer with skills in using a variety of social media platforms to promote the crowdfunding campaign to wider audiences.

It is suggested that the review of crowdfunding platforms include looking at the style of how funds are raised and the cost collected by the platform. Some platforms with lower costs also have a restriction of the all or method style meaning the nonprofit organization may only receive funds if the goal is achieved (Loucanova & Olsiakova, 2021). Whereas other platforms allow for funds to be withdrawn while the campaign is still in operation and if the goal is not achieved. The nonprofit organization will have to decide which is most suitable for their needs and begin a budget around the projected costs. The all-or-nothing model Majeski (2019)

identifies indicates that the crowdfunding platform is free to use and only charges a percentage of funds received as a fee. If the crowdfunding platform does not raise enough funds, then there are no fees charged by the platform. This offers a minimal risk for a nonprofit organization to not lose money to a crowdfunding platform.

Nonprofit organizations will want to plan a marketing campaign to go along with their crowdfunding campaign to promote the opportunity and need for donations (Zhou & Ye, 2019). The marketing campaign may be as simple as scheduled posts for social media, emails to supporters, and word of mouth which are all inexpensive and time-efficient. Some social media platforms will boost crowdfunding posts for a small fee. It was shared that the campaign is most effective using social media to help promote the opportunity (Petrov & Emelyanova, 2021). Consider other ways the campaign can be promoted and at what cost. Radio, television, and print advertisements are costly yet may be necessary to promote fundraising events and efforts. Since the crowdfunding campaign is internet-based most people will access it through their mobile devices, computers, and tablets. The nonprofit organization will need to consider internet or mobile-based efforts to promote the crowdfunding campaign (Zhou & Ye, 2019).

It is interesting to consider the bill proposed in California for crowdfunding campaigns to receive the consent of the recipient nonprofit organization before launching a campaign (Takagi, 2019). It suggests that fundraising for the benefit of another organization without involving the organization has posed issues or concerns necessitating this new law. Someone may have found a way to use crowdfunding platforms to nefariously generate a personal profit. However, this is an interesting idea considering how many social media birthday posts we see where the individual

birthday person is designating a nonprofit organization as the recipient of any gifts given to celebrate the birthday (Takagi, 2019).

As a nonprofit organization, it appears to be a great idea to require crowdfunding campaigns to receive the consent of the organization before the campaign can be offered (Takagi, 2019). In the example shared of Carson King choosing the University of Iowa Stead Family Children's Hospital as the beneficiary of his Venmo crowdfunding campaign, it would have provided the Hospital knowledge this was happening before the media attention promoted the campaign. Imagine reading in the paper or catching the news to learn the nonprofit organization you work for is now named beneficiary of a Venmo campaign from a sign asking for more beer money at a football game. Depending on the nonprofit organization, becoming associated with a plea for alcohol could pose public relations challenges. Takagi's (2019) take on requiring the consent of the nonprofit organization certainly could regulate the risk of fundraisers being carried out to their benefit without their knowledge.

Suggestions for Future Research

Since starting this literature review the world has experienced a Coronavirus Pandemic impacting nonprofit organizations' ability to hold fundraising events or campaigns. It would be interesting to learn how this has impacted nonprofit fundraising and if crowdfunding campaigns became an annual fundraising plan. Knowing how nonprofit organizations benefited from annual crowdfunding campaigns and how it impacted their fundraising plans would be interesting to review the financial impact it has made.

A study of nonprofit organizations using various crowdfunding platforms to increase donations should be considered in the future. It would be interesting to identify the number of

resources needed to implement successful crowdfunding campaigns including human resources, social media activity, marketing efforts, and actual expenses. The results of this study could potentially identify strategies for nonprofit organizations to follow in order to increase their crowdfunding campaign success. Much like the planning of golf tournaments, a nonprofit organization can use those identified strategies to successfully plan a crowdfunding campaign.

A study of nonprofit organizations using crowdfunding campaigns as a part of their annual fundraising plan could address questions to strengthen the efforts of the campaign. What size of a social media presence impacts the reach of the crowdfunding campaign and how to achieve a greater reach using social media? How can contributors to a crowdfunding campaign develop a deeper relationship with the benefiting nonprofit organization? How can contributors to a crowdfunding campaign become engaged in other opportunities within the nonprofit organization such as volunteering, serving on a committee, securing additional funding, and more?

Rules and regulations for nonprofit organizations using crowdfunding platforms are other areas for future research. Expanding beyond the United States of America, governmental organizations work in other countries, including China, Brazil, the United Kingdom, and possibly more. The State of California had a bill proposed for state legislation addressing crowdfunding platforms that would impact campaigns yet it failed.

Concluding Comments

Crowdfunding campaigns and platforms can be used by nonprofit organizations to efficiently raise funds any time of year and for any purpose. There is no identified schedule, season, or calendar for when a crowdfunding campaign to raise funds can take place. A

crowdfunding campaign can be as big and complicated as anyone chooses to make it while equally, it can be as small or specific as the nonprofit needs it to be.

This literature review identified what crowdfunding is and how it can be used to raise funds for nonprofit organizations. Also, the benefits and limitations a nonprofit organization should be aware of were researched. In addition, the literature review examined the potential organizational costs of crowdfunding campaigns. Furthermore, it explored how crowdfunding platforms are monitored and held accountable.

REFERENCES

- Anglin, A. H., Short, J. C., Drover, W., Stevenson, R. M., McKenny, A. F., & Allison, T. H. (2018). The power of positivity? The influence of positive psychological capital language on crowdfunding performance. *Journal of Business Venturing*, 33(4), 470-492.
- Calvin, A. (2019). Meet Carson King, the 'Iowa Legend' who's raised more than \$1 million for charity from a sign asking for beer money. *The Des Moines Register*. Retrieved 10/1/2019 from <https://www.desmoinesregister.com/story/sports/college/iowa-state/football/2019/09/24/meet-carson-king-whos-raised-over-1-million-charity-asking-beer-money-childrens-hospital-tweet/2427538001/>
- Cantú Villarreal, M. V., & Vasiljević, A. (2021). The Effects of Framing on Crowdfunding Success: How do message framing elements in a campaign's video pitch influence funding success?.
- Fintech: Financial Technology Research Guide, (2021). Crowdfunding & Regulations. Retrieved 10/20/2020 from <https://guides.loc.gov/fintech/21st-century/crowdfunding>
- Freedman, D.M. & Nutting, M.R. (2015). A brief history of crowdfunding. *Including Rewards, Donation, Debt and Equity Platforms in the USA*. Retrieved 1/26/2020 from <http://freedman-chicago.com/ec4i/History-of-Crowdfunding.pdf>
- Gedda, D., Nilsson, Billy., Sathen, Z., & Solberg Soilen, K. (2016). Crowdfunding: Finding the optimal platform for funders and entrepreneurs. *Technology Innovation Management Review*, 6(3), 31-40.
- Gerber, E.M., Hui, J.S., & Kuo, P.Y. (2012). Crowdfunding: Why people are

- motivated to post and fund projects on crowdfunding platforms. *Proceedings of the International Workshop on Design, Influence, and Social Technologies: Techniques, Impacts, and Ethics*, 2(11), 10. Northwestern University Evanston, IL.
- Johnston, M. W. (2015). Crowdfunding collection and composting. *BioCycle*, 56(3).
- Joslyn, H. (2017). Tips for running a crowdfunding drive. *The Chronicle of Philanthropy*. Retrieved 2/10/2020 from <https://www.philanthropy.com/article/Tips-for-Running-a/241292>
- Katalkina, O., & Saksonova, S. (2021). Comparative Analysis Of The European Union Crowdfunding Service Providers Regulation And Regulatory Barriers For Crowdfunding In The Baltic States. *New Challenges in Economic and Business Development–2021: Post-Crisis Economy*, 203.
- Kirby, E., & Worner, S. (2014). Crowd-funding: An infant industry growing fast. IOSCO Research Department.
- Loucanova, E., & Olsiakova, M. (2021). Crowdfunding as a Way of the Monetary and Financial Ecologies.
- Majaski, C. (2019). PayPal vs. Venmo: What's the difference? Retrieved 10/1/2019 from <https://www.investopedia.com/articles/investing/072815/paypal-vs-venmo-function-versus-fun.asp#targetText=Venmo%20has%20also%20branched%20out,a%20user's%20balance%20cost%20nothing>
- National Council of Nonprofits. (2019). Crowdfunding for nonprofits. Retrieved 2/2/2020 from <https://www.councilofnonprofits.org/tools-resources/crowdfunding-nonprofits>
- Petrov, L. F., & Emelyanova, E. S. (2021). The Crowdfunding: Financial Flows and Risks.

- Registration of Funding Portals. (2017). SEC.gov Registration of Funding Portals. Retrieved from www.sec.gov/divisions/marketreg/tmcompliance/fpregistrationguide.htm.
- Takagi, G., (2019). California Charities and Crowdfunding Bill – AB 1539. *Nonprofit Law Blog*. Retrieved 2/2/2020 from <http://www.nonprofitlawblog.com/california-charities-and-crowdfunding-bill-ab-1539/>
- Trejos, A. (2017). Ice bucket challenge: 5 things you should know. *USA Today*. Retrieved 10/1/2019 from <https://www.usatoday.com/story/news/2017/07/03/ice-bucket-challenge-5-things-you-shouldknow/448006001/#targetText=What%20is%20the%20Ice%20Bucket,dumped%20over%20the%20individual's%20head.>
- Weiss, N. (2019). The state of crowdfunding regulation in the united states. *Business Law International*, 20(3), 285-293. Retrieved 10/6/2020 from <https://search-proquest-com.proxy.lib.uni.edu/docview/2344182351?accountid=14691>
- Zhao, Y., Harris, P., & Lam, W. (2019). Crowdfunding industry—History, development, policies, and potential issues. *Journal of Public Affairs*, 19(1)
- Zhou, H., & Ye, S. (2019). Legitimacy, worthiness, and social network: An empirical study of the key factors influencing crowdfunding outcomes for nonprofit projects. *Voluntas*, 30(4), 849-864.